

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
SS-15 STR-06 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 PA-01
PRS-01 L-03 /087 W

-----126903 121025Z /10

R 120900Z JAN 78

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 8563

TREASDEPT WASHDC

INFO AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

USLO PEKING

C O N F I D E N T I A L HONG KONG 0655

TREASURY FOR SEARING AND PELIKAN

E.O. 11652: XGDS

TAGS: EFIN, CH

SUBJ: RECENT CHANGES IN RMB EXCHANGE RATES

1. RECENT CHANGES MADE BY THE PEOPLE'S BANK OF CHINA IN RMB
EXCHANGE RATES ARE INTERESTING IN LIGHT OF THE GENERAL
TURBULENCE OF RATES.

2. FROM END-OCTOBER TO END-DECEMBER 1977, RMB RATES CHANGED
AS FOLLOWS FOR KEY CURRENCIES (NEGATIVE FIGURE INDICATES
RMB APPRECIATION) IN PER CENT:

DM	2.02
YEN	-.12
SWISS FRANC	7.36
POUND STERLING	1.58
HK DOLLAR	-3.13
US DOLLAR	-5.06

3. FOR COMPARISON, US DOLLAR DEPRECIATED AGAINST ALL

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THE ABOVE CURRENCIES IN HONG KONG MARKET DURING SAME
PERIOD, BY PERCENTAGES AS FOLLOWS:

DM	7.43
YEN	3.47
SWISS FRANC	10.69
POUND STERLING	5.00
HK DOLLAR	1.88

4. AS USUAL, RMB CROSS RATES WERE KEPT RATHER CLOSE TO THOSE IN HONG KONG MARKET, NO "BREAK" EXCEEDING 2 PERCENT.

5. OVER LAST SEVERAL YEARS RMB HAS GENERALLY FOLLOWED HONG KONG DOLLAR CLOSELY, DEPRECIATING WITH THE YEN AND FOLLOWING MIDDLE COURSE BETWEEN US DOLLAR AND DM. FOR EXAMPLE, FOR WHOLE PERIOD END-74 TO END-77, RMB HAS DEPRECIATED 16.7 PER CENT AGAINST YEN, APPRECIATED 1.5 PER CENT AGAINST HONG KONG DOLLAR, DEPRECIATED 6.5 PER CENT AGAINST DM AND APPRECIATED 7.4 PER CENT AGAINST U.S. DOLLAR. OCTOBER - DECEMBER LOOKS LIKE AN SHIFT IN PATTERN, BUT SINCE WE HAVE NEVER KNOWN WHAT WEIGHTS PRC ATTACHES TO VARIOUS CURRENCIES, OR EVEN WHETHER A FIXED FORMULA IS USED, WE CANNOT BE SURE.

6. IN CONVERSATION WITH CONGEN JANUARY 10, BANK OF CHINA SUB-MANAGER FANG SHAK-KUEI REPLYING TO QUESTION SAID THAT FORMULA IS BASED ON THREE CURRENCIES: U.S. DOLLAR, HK DOLLAR, AND POUND STERLING. HE ADDED THAT YEN IS NOT CONSIDERED. THIS IS FIRST TIME TO OUR KNOWLEDGE THAT ANY CHINESE OFFICIAL HAS BEEN SO SPECIFIC, AND IT SHOULD BE POSSIBLE TO TEST FOR SUCH A SIMPLE FORMULA. FANG DID NOT HOWEVER ASSERT THAT WEIGHTS ATTACHED TO THE THREE HAVE BEEN FIXED OVER TIME.
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7. BELIEVE WE SHOULD PROTECT FANG AS SOURCE ON THIS. HE IS HARVARD-EDUCATED ECONOMIST WHO HAS WORKED FOR BANK OF CHINA SINCE BEFORE COMMUNIST TAKEOVER.

8. DETAILS ON RECENT RATE CHANGES FOLLOWS BY AIRGRAM.
SHESMITH

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AMENDMENTS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 12 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978HONGK00655
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DOWNGRADE PER 78 HONG KONG 1002
Executive Order: X2
Errors: N/A
Expiration:
Film Number: D780017-1317
Format: TEL
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780169/aaaacgky.tel
Line Count: 101
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2a39fce3-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3783210
Secure: OPEN
Status: NATIVE
Subject: RECENT CHANGES IN RMB EXCHANGE RATES
TAGS: EFIN, CH
To: STATE TRSY
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/2a39fce3-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014